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FM AMEMBASSY SANTIAGO
TO RUEHC/SECSTATE WASHDC PRIORITY 3824
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RUEHBO/AMEMBASSY BOGOTA PRIORITY 2123
RUEHBR/AMEMBASSY BRASILIA PRIORITY 0464
RUEHBU/AMEMBASSY BUENOS AIRES PRIORITY 1075
RUEHCV/AMEMBASSY CARACAS PRIORITY 1801
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SUBJECT: ECONOMIC WOES AT CHILE'S NORTHERN BORDER

¶1. SUMMARY: Arica, Chile's northernmost city, faces multiple economic challenges, including the 2000 kilometers that separate it from Santiago and competition from cheaper Peru, which is just a short drive north. This city, once part of Peru, has the highest unemployment rate in Chile and poverty rates that are among the nation's highest. Maritime shipping--especially cargo from landlocked Bolivia--is a major local industry, and the city's economic hopes are pinned on agriculture, fishing, tourism, and mining. END SUMMARY.

¶2. Poloff met with elected officials, law enforcement officers, business leaders, press, academic officials, and indigenous leaders in the Arica and Parinacota region of northern Chile October 1-3. Septels will report on local political issues and border challenges in the area.

Poor Arica: So Far From Santiago and So Close to Tacna

¶3. Descriptions of Arica today cannot help but falter in comparison to stories of Arica's heyday in the 1940s to 1960s. During that period, Arica's manufacturing-based economy boomed, with local factories turning out televisions, refrigerators, and processing fish for export throughout the region. However, neither the Allende nor the Pinochet years were kind to the area. Allende's economic policies negatively impacted the whole country, while Arica was hard hit by the lower tariffs ushered in by Pinochet.

¶4. Today, many local businesspeople lament that Arica suffers from being so far from Santiago while being so close to southern Peru. The 2000 km that separate Arica from the nation's capital make shipping extremely costly and make Arica a relatively unattractive place for Chilean industry. At the same time, the proximity of Tacna, Peru--an hour's drive away--hurts the local economy. Budget-conscious Aricans spend their weekends in Peru enjoying that country's cheaper goods and services. Meanwhile, nearly anything that could be produced in Arica can be made for less in Peru, which has much lower wages. Several Aricans compared their city to San Diego with its inextricable link to less prosperous and cheaper Tijuana, Mexico. Both Tacna and the Chilean port city of Iquique, 300 kms south, are free trade zones, leaving Arica in an isolated and economically inhospitable location according to the Chamber of Commerce president.

Arica Struggles with Poverty and Unemployment

¶5. Although still relatively well-off when compared to neighboring areas in Peru and Bolivia, Arica is one of

Chile's poorest regions, with a poverty rate of almost 19%, five points higher than the national average. Poverty is particularly common among children and the indigenous, with 24% of all indigenous Aricans and 22% of all children under 17 falling under the government's poverty threshold of roughly USD 77 per person per month.

¶6. Arica struggles with the highest unemployment rate in the country, according to former Intendente and current mayoral candidate Patricio Zapata: 11.4% compared to the national average of 7.8%. (Note: The most recent national unemployment statistic collected by Chile's Central Bank was 8.2% for August. They had no statistics for Arica specifically. End Note.) General Motors, which operated the last of Arica's major factories, just closed its doors a few months ago, laying off 600 direct employees and an additional 600 indirect employees, such as contractors. Adding to the city's labor woes are the presence of undocumented Peruvian workers. Under the Tacna-Arica Agreement, residents of either city can cross the border and enter the other city for up to 7 days without a passport or visa. While this agreement is not supposed to be used to facilitate employment, District Attorney Jorge Valladares estimated that 3,000-4,000 Tacnans work illegally in Arica and commute home on the weekends.

Economic Hopes Pinned on Agriculture, Tourism, and Shipping

¶7. Agriculture, fishing, maritime transportation, and tourism are the backbone of Arica's economy. Significant investment in irrigation has produced an agriculture boom.

Arica's busy port is important both to the city and to neighboring Bolivia: 70% of the cargo shipped from Arica is Bolivian. Intendente Luis Rocafull, the centrally appointed regional governor, revealed that the Chilean and Bolivian governments have agreed to construct a railroad linking Arica and La Paz, to open in April 2010. Outside of these sectors, many Aricans are self-employed entrepreneurs, supporting themselves in activities ranging from operating a small chain of home furnishing stores to informally (and illegally) importing used American clothing to Tacna. (Note: Peruvian law prohibits the importation of used clothing, creating a thriving market for Chileans who smuggle it over the border. End Note.)

¶8. Senator Jaime Orpis, a member of the conservative Renovacion Nacional party, told Poloff that he plans to present to La Moneda an economic development plan that would promote mining, agriculture, and tourism in the region. He predicts opposition to provisions that would open 40,000 hectares of environmentally protected land to mining and objections to the water resources needed for additional agriculture, assessing his tourism promotion component as having the best chances of success.

¶9. COMMENT: Arica's economic struggles have hurt its pride, particularly as the city seems to be forever comparing itself today to its boom years of the 40s, 50s, and 60s. While the city is struggling--particularly in comparison to the relative prosperity of much of the rest of Chile--residents display a remarkable loyalty to this northern outpost. Citing a low cost of living, fabulous weather, low crime rates, and family roots, many Aricans have opted to work at mines 400 to 700 km away--spending several days in a row at the mines and then returning to Arica for several days--rather than leave their beloved city. That sort of loyalty, combined with tourism promotion, a new rail link, and growth in the agriculture industry, is likely to ensure that Arica's economy will continue to putter along, although the city is unlikely to ever regain its former glory. END COMMENT.
SIMONS